

Message Text

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ACTION NODS-00

INFO OCT-01 ISO-00 /001 W

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FM AMEMBASSY MOSCOW

TO SECSTATE WASHDC NIACT IMMEDIATE 5401

S E C R E T MOSCOW 14499

NODIS

E.O. 11652: GDS

TAGS: ETRD, EEW, UR, US

SUBJECT: GRAIN/OIL NEGOTIATIONS

FROM ROBINSON

1. SUMMARY: WE HAVE ARRANGED MEETING WITH PATOLICHEV FOR 5:30 P.M. MOSCOW TIME TODAY FRIDAY TO COMMENCE NEGOTIATIONS IN ACCORDANCE YOUR INSTRUCTIONS REFTEL. HOWEVER, TO MINIMIZE THE POSSIBILITY OF CONFUSION, I REQUIRE IMMEDIATE GUIDANCE ON BOTH THE TACTICAL AND TECHNICAL QUESTIONS OUTLINED BELOW. I AM PARTICULARLY CONCERNED WITH THE APPARENT TREND TOWARDS SEPARATION OF GRAIN AND OIL AGREEMENTS WHICH I VIEW AS ADVERSE TO U.S. INTERESTS. WE WILL PROCEED AS RAPIDLY AS POSSIBLE TO NEGOTIATE OIL SHIPPING RATES AND OTHER TERMS AS REQUESTED BUT, SHOULD U.S. DOMESTIC POLITICAL PRESSURES FORCE LIFTING OF GRAIN MORATORIUM AND SIGNING OF THE LONG-TERM GRAIN AGREEMENT, I URGE A SIMULTANEOUS SIGNING OF AN OIL LETTER OF INTENT. THIS COULD BE BACKED UP BY WHATEVER VERBAL OR WRITTEN ASSURANCE OF SPECIAL BENEFITS WE CAN ACHIEVE BY THAT TIME. IN ANY EVENT, TO PRESERVE MY EFFECTIVENESS HERE, I NEED SOME HINT ON TACTICAL PLAN. END SUMMARY.

2. PRESENT DRAFT OIL LETTER OF INTENT PROVIDES USG WITH AN OPTION RPT OPTION PURCHASE BUT WITHOUT COMMITMENT WHICH I AM ADVISED BY L CAN BE CONCLUDED WITHOUT CONGRESSIONAL APPROVAL OR APPROPRIATION. NEGOTIATING ALONG LINES INSTRUCTED REFTEL WILL LEAD SOVIETS TO CONCLUSION WE ARE

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PREPARED MAKE A FIRM PURCHASE COMMITMENT NOW. AS THIS

WOULD REQUIRE CONGRESSIONAL APPROPRIATION, PLEASE CONFIRM
YOUR INTENT THAT WE PROCEED ON THIS BASIS.

3. TO FACILITATE GENERATION OF POTENTIAL BENEFITS THROUGH
EUROPEAN SWAP ARRANGEMENTS AS DISCUSSED PARA 4 BELOW, I HAD
ANTICIPATED OIL PURCHASES ON AN FOB NOVOROSSISK BASIS.
INSTURCTIONS IN REFTEL PARA 4A LEAVE THIS MATTER CONFUSED
AS A SUGGESTED FREIGHT RATE REDUCTION ON SOVIET OIL
TRANSPORT SUPPORTS FOB CONCEPT, WHEREAS THE SUGGESTED
ALTERNATIVE OF AN INCREASED FREIGHT RATE ON U.S. SHIPS
IMPLIES A CIF PURCHASE. WOULD APPRECIATE CLARIFICATION.

4. I HAVE ALWAYS CONTEMPLATED A MAJOR BENEFIT TO U.S.
THROUGH EUROPEAN OIL SWAP ARRANGEMENTS. THIS WOULD REQUIRE
A LOWER THAN SAUDI BASE PRICE FOB NOVOROSSISK, ALLOWING
SOME QUANTITY OF CRUDE AND REFINED PRODUCTS TO MOVE INTO
MEDITERRANEAN EUROPEAN PORTS, WITH THE USG OBTAINING A
SIGNIFICANT PROFIT MARGIN. THIS FOB PRICE COULD BE
DERIVED BY DEDUCTING FROM AN AGREED U.S. OIL IMPORT
"COST" FROM OTHER SOURCES AN AMOUNT COVERING ANTICIPATED
FREIGHT PAYMENTS TO U.S. SHIPS WHICH WOULD RESULT IN AN
FOB PRICE BELOW THE SAUDI BASE PRICE. IF AS SUGGESTED
REFTEL WE ACCEPT THE SAUDI MARKER CRUDE BASE FOR OUR
FOB PRICE, WE WILL HAVE TO FIND ANOTHER METHOD FOR
ACHIEVING PROFIT IN EUROPEAN SWAP ARRANGEMENTS OTHER THAN LIMITED
TRANSPORT SCHEMES. DO YOU HAVE ALTERNATIVE SUGGESTIONS?

5. WITH 30 PERCENT OF THE TOTAL SOVIET DELIVERIES TO BE
IN THE FORM OF REFINED PRODUCTS, WE HAVE THE COMPLICATED
PROBLEM OF ESTABLISHING AN EQUIVALENT SPECIAL PRICING
FORMULA. I BELIEVE THAT THIS IS AN AREA IN WHICH THE
SOVIETS ARE PREPARED TO MAKE SIGNIFICANT CONCESSIONS TO
ENSURE MORE EFFICIENT OPERATING LEVELS FOR THEIR UNDER-EMPLOYED
REFINERY FACILITIES. THIS HOWEVER WILL REQUIRE THE ASSISTANCE
OF TECHNICAL OIL EXPERTS AND WHAT WILL CERTAINLY BE EXTENDED
NEGOTIATIONS. DOES WASHINGTON HAVE SUGGESTIONS FOR MY DEALING
WITH THIS PROBLEM?

6. ALTHOUGH PRELIMINARY DISCUSSION OF THE PRINCIPLES
INVOLVED WILL BE HELD WITH PATOLICHEV, WE ANTICIPATE THAT
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HE WILL INSIST THAT THE SHIPPING ASPECT OF THE NEGOTIATION
BE CONDUCTED AT APPROPRIATE TECHNICAL LEVELS WITHIN THE
SOVIET MINISTRY OF MERCHANT MARINE. AS IT WOULD SEEM
INAPPROPRIATE FOR ME TO BECOME PERSONNALLY INVOLVED IN
THESE TECHNICAL MATTERS, I URGE THAT BLACKWELL AND/OR
ANOTHER CHARTERING EXPERT FROM MARAD COME TO MOSCOW
IMMEDIATELY TO UNDERTAKE THESE NEGOTIATIONS. WHAT CAN I
ADVISE PATOLICHEV ON THIS MATTER?

7. WE ANTICIPATE THAT PATOLICHEV WILL ASK WHETHER THESE SHIPPING NEGOTIATIONS WILL HAVE ANY RELATION TIME-WISE TO THE CONCLUSION OF THE LONG-TERM GRAIN AGREEMENT. AS COMPLETION OF SPECIFIC ARRANGEMENTS ON OIL TRANSPORTATION COULD EXTEND OVER SEVERAL WEEKS, WHAT IS OUR POSITION ON THIS ISSUE?

8. AN AP PRESS REPORT FROM WASHINGTON RECEIVED HERE THIS MORNING QUOTES PRESIDENT FORD AS INDICATING THAT AS SOON AS WE GET THE GRAIN ESTIMATE ON FRIDAY"...I PRESUME THERE WILL BE SOME ANNOUNCEMENT AS TO THE FURTHER SALE OF GRAIN TO THE SOVIET UNION." THIS REPORT ALSO INDICATES THAT THE PRESIDENT ADDED THAT "THE GRAIN AGREEMENT WILL COME BEFORE AN ACCORD IS REACHED ON THE SALE OF SOVIET OIL TO THE U.S." THESE STATEMENTS WILL WEAKEN THE POSITION WE HAVE TAKEN HERETOFORE THAT CONCLUSION OF THE OIL LETTER OF INTENT IS AN ESSENTIAL CONDITION FOR THE LONG-TERM GRAIN AGREEMENT AND LIFTING OF THE MORATORIUM.

9. WE WILL MAKE EVERY EFFORT TO OBTAIN CONCESSIONS ON OIL PRICING OR OTHER TERMS AS RAPIDLY AS POSSIBLE. HOWEVER IN MY JUDGEMENT SIGNING THE LETTER OF INTENT ON OIL AS NOW TENTATIVELY ACCEPTED SIMULTANEOUSLY WITH THE SIGNING OF THE GRAIN AGREEMENT IS ESSENTIAL TO SIGNAL TO THE WORLD THE LINKAGE BETWEEN THESE TWO AGREEMENTS WITH ITS IMPLICATION OF AGRI-POWER. WE COULD BACK THIS UP WITH A FURTHER UNDERSTANDING ON SHIPPING AND OTHER TERMS ESTABLISHED IN WRITING HERE OR VERBALLY THROUGH HIGHEST CHANNEL.

10. I WILL PROCEED WITH PATOLICHEV AS RAPIDLY AND AS AGGRESSIVELY AS POSSIBLE EXPLORING VARIOUS ALTERNATIVE
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APPROACHES TO ACHIEVE ECONOMIC BENEFITS IN AN OIL PURCHASE AS SET FORTH IN REFTEL. HOWEVER, GUIDANCE ON THE FOREGOING QUESTIONS IS ESSENTIAL TO ENSURE THAT WE ARE PROCEEDING IN A MANNER CONSISTENT WITH WASHINGTON'S TACTICAL PLAN WHICH REMAINS UNCLEAR ON THIS END. TO PROCEED TOO FAR WITHOUT A CURRENT NAVIGATIONAL CHART COULD LEAD US DOWN THE WRONG CHANNEL. MY POSITION HERE IS BECOMING INCREASINGLY UNTENABLE AND COULD LEAD TO COUNTER-PRODUCTIVE MOVES ON THIS END UNLESS I AM GIVEN BETTER UNDERSTANDING OF OVERALL U.S. NEGOTIATING OBJECTIVES.

11. WE HAVE SENT THIS MESSAGE NODIS BECAUSE IT CONTAINS POLICY MATTERS. HOWEVER, WE HOPE THAT OPERATIONAL ASPECTS CAN BE HANDLED EXPEDITIOUSLY.
STOESSEL

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, REPORTS, NEGOTIATIONS, GRAINS, TRADE AGREEMENTS, CAT-C
Control Number: n/a
Copy: SINGLE
Draft Date: 10 OCT 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: KelleyW0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975MOSCOW14499
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: P840167-2489
From: MOSCOW
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751062/aaaacccrb.tel
Line Count: 169
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NODS
Original Classification: SECRET
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: NODIS
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: SECRET
Previous Handling Restrictions: NODIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: KelleyW0
Review Comment: n/a
Review Content Flags:
Review Date: 11 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <11 JUN 2003 by ShawDG>; APPROVED <29 OCT 2003 by KelleyW0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GRAIN/OIL NEGOTIATION
TAGS: ETRD, EEW, UR, US
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006